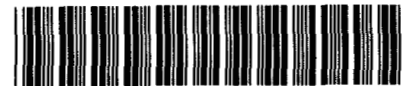


EXCEPTION

ORIGINAL



0000121366

**BEFORE THE ARIZONA CORPORATION COMMISSION**

JIM IRVIN  
COMMISSIONER-CHAIRMAN  
TONY WEST  
COMMISSIONER  
CARL J. KUNASEK  
COMMISSIONER

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Arizona Corporation Commission

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IN THE MATTER OF THE COMPETITION  
IN THE PROVISIONS OF ELECTRIC  
SERVICES THROUGHOUT THE STATE OF  
ARIZONA.

DOCKET NO. RE-00000C-94-0165

**CITIZENS UTILITIES COMPANY  
EXCEPTIONS TO PROPOSED  
ORDER CONCERNING STRANDED  
COSTS**

Citizens Utilities Company ("Citizens") files the following four exceptions to the Hearing Officer's February 5, 1999, Proposed Order to amend Decision No. 60977, concerning stranded costs associated with opening the electric industry to competition ("Stranded Cost Proposed Order"). Citizens' exceptions fall into three areas: 1) the definition of stranded costs, where Citizens presents two exceptions; 2) the allowed carrying charge on the unamortized balance of stranded costs; and 3) price caps on Standard Offer rates.

**Citizens' Exception No. 1: The Definition of Stranded Costs in the Stranded Cost Proposed Order Should be Amended to Conform With the Definition in the Competition Rules.**

In the concurrent proceeding in this docket focusing on modifying the Electric Competition Rules ("Rules"), several parties, including Citizens, proposed modifications to the definition of stranded costs, a number of which were adopted by the Hearing Officer in his February 5, 1999, proposed order. In particular, the proposed order on the Rules recommends adding "Other transition and restructuring costs as approved by the Commission" to the definition.<sup>1</sup> Options No.1 and No.2 separate stranded costs into generation-related and regulatory

<sup>1</sup> Proposed Order, Electric Competition Rulemaking, Feb. 5, 1999, App. C, p. 9.

1 assets only. At minimum, the Order should also specifically define treatment for  
2 the "other transition and restructuring costs" addressed in the proposed Rules.  
3 Transition costs should be accorded the same treatment as regulatory assets.

4 Furthermore, as described next, both the discussion in the Stranded Cost  
5 Proposed Order, as well as, the Rules should be modified to also include stranded  
6 costs associated with opening metering, meter reading, billing, and collection  
7 services to competition.

8 **Citizens' Exception No. 2: Recoverable Stranded Costs Should Include**  
9 **Those Associated with Opening Metering, Meter Reading, Billing, and**  
10 **Collections to Competition.**

11 Affected Utilities have invested substantial resources to carry out metering  
12 and billing functions that are essential to supplying electricity. The opening of  
13 these services to competition can render these investments stranded in the same  
14 way as above-market generation assets can be stranded by the introduction of  
15 competition. Recovery of stranded metering and billing costs is no less  
16 appropriate than recovery for stranded generation assets; the same constitutional  
17 protections apply. Further, as with generation-related stranded costs, denial of  
18 stranded cost recovery may well lead to unintended and immediate write-offs  
19 under Statement of Financial Accounting Standards ("SFAS") No. 71, because  
20 rates would not fully recover the costs of providing service. Citizens urges the  
21 Commission to make recovery of metering/billing-related stranded costs explicit  
22 in its final decision in this matter.

23 Because these investments are separate and distinct from generation  
24 assets, Affected Utilities should be able to independently elect an option for  
25 recovery of stranded metering and billing costs. For instance, election of a net  
26 revenues lost methodology for generation should not prevent an Affected Utility  
27 from electing the divestiture/auction option for metering and billing and vice  
28 versa.

1 **Citizens' Exception No. 3: Carrying Charges on the Unamortized Balance**  
2 **of Stranded Costs Should be Allowed Under the Divestiture/Auction**  
3 **Methodology.**

4 In its May 29, 1998, exceptions filed in response to the Hearing Officer's  
5 initial proposed order on stranded costs in this docket, Citizens described why,  
6 due to the time-value of money, denying carrying charges on the unamortized  
7 balance of stranded costs was tantamount to denying full recovery of stranded  
8 costs. The Commission did find these arguments to be persuasive and allowed  
9 carrying charges in Decision No. 60977.

10 The Stranded Cost Proposed Order has (perhaps inadvertently) again  
11 proposed disallowal of carrying charges on unrecovered balances. Citizens' prior  
12 comments are no less applicable to the current Proposed Order. As Citizens  
13 pointed out in its previous exceptions:

14 "To keep utilities whole when ordering amortizations of prudent expenses  
15 or investments, Commissions have traditionally allowed unamortized  
16 balances to earn interest at the utility's authorized return. If we assume  
17 that to be 10%, denying any return would be equivalent to recovering only  
18 63% of the determined stranded costs."

19 By denying carrying charges the Stranded Cost Proposed Order would make  
20 unobtainable the stated goal of giving utilities "a reasonable opportunity to collect  
21 100 percent of their unmitigated stranded costs."<sup>2</sup> As Citizens has pointed out,  
22 not allowing recovery of carrying charges on the unamortized balance of stranded  
23 costs would likely require write-offs equal to the difference between the current  
24 balance and the net present value of the amount deferred.

25 In the concurrent proposed order on the Electric Competition Rules, the  
26 Hearing Officer acknowledges the time-value of money in relation to stranded  
27 costs and the recoverability of financing costs in accepting Tucson Electric Power's  
28 proposed language: "The Commission may consider securitization as a financing  
29

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<sup>2</sup> ACC Decision No. 60977, p. 8.

1 method for recovery of Stranded Costs of the Affected Utility if the Commission  
2 finds that such method of financing will result in a lower cost alternative to  
3 customers."<sup>3</sup> Citizens urges the Commission to maintain its decision on this  
4 matter and allow recovery of carrying charges on the unamortized balance of  
5 stranded costs, at minimum, consistent with the utilities' cost of capital.

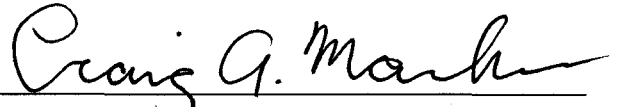
6 **Citizens' Exception No. 4: The Commission Should Not Include Price**  
7 **Caps on Standard Offer Rates in the Divestiture/Auction Methodology.**

8 As Citizens described in its May 1998 exceptions, the use of price caps on  
9 Standard Offer rates may force utilities to write off a portion of their stranded  
10 costs under SFAS No. 71. With price caps, utilities may not be fully compensated  
11 in current rates for stranded costs due to the long-term nature of the underlying  
12 investments and the ten-year limitation to the amortization period.  
13 Consequently, because rates during the price cap period would not be based on  
14 the costs of providing services and there would be less-than-adequate assurance  
15 that any amounts deferred would, in fact, ever be recoverable in regulated rates,  
16 utilities would be forced to write down their stranded costs accordingly. This  
17 would particularly be the case if carrying costs on deferred amounts were not  
18 allowed, as stated in the current Proposed Order.

19 It may well be possible to set CTC charges at levels that would not increase  
20 rates for standard offer customers, and Citizens fully appreciates why this result  
21 would be favorable. However, by effectively denying a reasonable opportunity for  
22 full recovery of stranded costs, the language proposed by the Hearing Officer  
23 regarding price caps would unnecessarily limit the Commission's flexibility to  
24 properly balance the interests of customers and shareholders. Therefore,  
25 Citizens urges the Commission to strike the last sentence in the proposed Option  
26 No. 2 - Divestiture/Auction Methodology.<sup>4</sup>

27  
28  
29 <sup>3</sup> Proposed Order on Electric Competition Rulemaking, Feb. 5, 1999, App. C., p. 32.  
<sup>4</sup> Proposed Order, p. 3.

1 RESPECTFULLY SUBMITTED this 17<sup>th</sup> day of February, 1999.

2  
3  
4 

5 Craig A. Marks  
6 Associate General Counsel  
7 Citizens Utilities Company  
8 2901 N. Central Avenue, Suite 1660  
9 Phoenix, Arizona 85012

10 Original and ten copies filed this  
11 17<sup>th</sup> day of February, 1999, with:

12 Docket Control  
13 Arizona Corporation Commission  
14 1200 West Washington  
15 Phoenix, Arizona 85007

16 Copies of the foregoing mailed/delivered  
17 this 17<sup>th</sup> day of February, 1999, to:

18 Jerry Rudibaugh  
19 Arizona Corporation Commission  
20 1200 West Washington  
21 Phoenix, Arizona 85007

22 Paul Bullis  
23 Arizona Corporation Commission  
24 1200 West Washington  
25 Phoenix, Arizona 85007

26 Ray Williamson  
27 Arizona Corporation Commission  
28 1200 West Washington  
29 Phoenix, Arizona 85007

30 All parties indicated on service list.

31 By:   
32 Joann Zychlewicz

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